AUSTIN-BERGSTROM LANDHOST ENTERPRISES, INC.
MINUTES OF MEETING OF THE BOARD OF DIRECTORS
MARCH 11, 2014

The Board of Directors of Austin-Bergstrom Landhost Enterprises, Inc. convened a meeting on Tuesday, March 11, 2014 in Conference Room 3102, Austin City Hall, 301 W. 2nd Street, Austin, Texas 78701.

The following members of the Board and officers of the Corporation were present:

Jim Smith, President
David Arthur, Vice President, Assistant Secretary, and Assistant Treasurer
Art Alfaro, Board Member
Sue Edwards, Board Member
Elaine Hart, Board Member
Stephen Lemmon, Husch Blackwell, LLP
Jeff Leuschel, McCall Parkhurst & Horton, LLP
Patty Van Buren, Staff
Susana Carbajal, Staff

President Jim Smith called the meeting to order at 3:00 p.m.

1. Approve minutes of the January 21, 2014 Board Meeting.

   Upon a motion from Arthur, seconded by Alfaro, the Board voted 3-0-1 to approve the minutes. Hart abstained and Edwards was absent.

   Edwards arrived.

2. Presentation, discussion, and possible action on refinancing the Hilton Austin Airport Hotel bonds.

   Smith explained that at the last meeting - the board authorized him to lead negotiations with Kayne Saybrook – the majority bondholders of ABLE ("Bondholders"). The meeting with the Bondholders was held and Smith reported back with the results and sought additional guidance on how the board would like to proceed. The Bondholders were informed that ABLE did not want to extend the lease with the City. The Bondholders were not pleased with ABLE's position and made threats including sweeping the funds from ABLE's trust account. The meeting with the Bondholders ended with ABLE giving some thought to a proposal to bring back to the Bondholders.

   Arthur reported on the current financial status of the Austin airport hotel ("Hotel"). In summary, 38 million in Senior A bonds and 3.7 million in subordinate B bonds were issued by ABLE in 1999. Kayne Saybrook recently bought 100% interest in the subordinate B bonds. Kayne Saybrook holds all of the Senior A bonds except a minor 4% in the retail market. Kayne Saybrook changed the trustee for the bonds – the person who was the trustee at Wells Fargo moved to UMB bank so they elected to shift the trust to UMB bank. ABLE's lease with the City expires in 2030. The Hotel opened in 2001 right before 9/11 happened. As a consequence of 9/11 in addition to other economic factors, the Hotel never made enough cash to meet its debt service payment requirements. A restructuring was done in 2005 to try to turn things around. In that restructuring, the City agreed to take only 75% of the rent owed to it with the remainder to be accrued at a later date. At this time, the capital needs of the hotel are accounted for with a 4% reserve fund from annual revenues. This fund usually goes towards upgrades and major repairs. For example, a chiller currently needs to have some major repairs right now. Also, there is 5.5 million needed right now for a major overhaul of the guest rooms, another 3 million in 2019, and 6 million in 2025. Approximately, 18 million over the remaining life of the lease of capital upgrades is needed that is not currently funded or has the ability to be funded by hotel revenue. PKF consultants provided a high level analysis of the Hotel for the last 2 years and made projections on the hotel performance over the next 40 years. In 2012 the hotel revenue was 14 million and 15 million in 2013. Overall, the Hotel is doing well on its revenue. The Hotel has consistently performed well against its competitive set. The Hotel is also a high performing hotel on customer service. The management fees run about 380,000 a year. Net income available before debt service in 2012 was just under 2 million, in 2013 there was 2 million 6, so that's about a 30% increase. The total debt service in 2013 was 3 million 2 but is still not enough to make the full principle payment.

Kayne Saybrook deferred about $830,000 from their debt service saying it was a gesture in good faith to be able to contribute to the capital. We are estimating an equivalent amount for the April debt service. The 4% for the capital reserve is moved to the capital fund every 6 months – another 300,000 will go to that in April. The Bondholders usually keep 350,000 in the account for reserve so there is a surplus of only 600,000. Then there is a debt service reserve fund and the renewal and replacement fund has $263,000. So there is 4 million in cash in the hotel accounts right now.

Once the Hotel reverts back to the City in 2030, ABLE no longer has debt service payments to make. The City no longer collects any rent but all the net operating income would come to the City. The total cash coming to the City between 2031 and 2046 is 137 million. If we take out the 4% reserve of 18 million gives us 118 million over 15 years. If you take away the additional capital expenses – the net present cash flow comes to 33 million. We believe this is a good reason for not extending the lease with the City. We also had HVS consultants perform an evaluation. HVS considered in its analysis the new, additional hotel rooms coming in downtown and the projections were not as good. The Bondholders were very upset about that and refuted HVS's study. Our HVS consultants stated that suburban hotels like the airport Hotel will get some pressure. Their evaluation was done in January 2014. The HVS report also shows factoring in their offer of paying us a rent figure plus 15% of the revenues after their senior debt service which gives us 26 million cash over those 15 years compared to 112 million. When you subtract the capital, it brings the net present value down to 3.8 million versus 31 million.

ABLE's first option was to offer the Bondholders a buy-out. Smith offered them 17 million which is based on the original HVS evaluation. The Bondholders were not pleased with that offer. We are now proposing to offer a $21.6 million buy-out since we offered $21 million last summer. This offer is based on a 30 million new bond issuance which would be pledged by hotel revenue backed by airport revenues in a subordinate position. PFM stated the subordinate position for these bonds should not affect the airport's credit. This includes the 5 million for capital improvements out of the bond proceeds. After expenses and subtract debt service – there is 15 million left over the 15 years. From that we would take an additional 12 million to cover additional capital needs for Hotel upgrades. PFM believes that the current bond rates for taxable bonds is about 4%. We also could offer for the City to defer some of the rent to pay for necessary capital improvements.

Smith proposes going on 2 parallel tracks to work with the Bondholders. Track 1 is offering them 21.6 million. The idea is to engage and work with the Bondholders to see what we could do if there was any hope of buying them out. That would be a preferred option – simplest and most straight forward. Track 2 is to offer a portion of City rent to help fund the Hotel's capital improvements. With either track, there is no lease extension. The analysis we had from HVS and others have looked into Kayne Saybrook and confirmed that these investors are looking to flip their investment in a 3-4 year time frame. Kayne Saybrook are not long term investment players.

While we are negotiating with the Bondholders, ABLE remains in default. The Bondholders have the right to exercise their remedies in the event of default. ABLE may also have other legal options.

<u>EXECUTIVE SESSION</u>

The board went into Executive Session, pursuant to Chapter 551 of the Texas Government Code, to receive advice from legal counsel to discuss matters of land acquisition and litigation.

Upon a motion from Alfaro, seconded by Arthur, the Board voted 5-0 to have an executive session with City Council to report on the Hilton Hotel at the Airport.

3. <u>Presentation, discussion, and possible action concerning Hilton Austin Airport Hotel management agreement.</u>

The current management agreement expired in December 2013 with a maximum of three months hold over period which is the end of March of this year. Any additional extensions have to be done in writing and agreed to by ABLE and Prospera. The trust indenture requires that any amendment or extension of the management agreement is to be approved by the majority of the bondholders and such approval is not to be unreasonably withheld. To date, the Bondholders have not given their approval to the amended and restated management agreement. Arguably, the Bondholders are being unreasonable by denying their approval in this instance – specifically because all parties have been acting and negotiating in good faith, including the Bondholders' participation by drafting the amended and restated management agreement with Prospera that gave them a term extension. Now, they are withholding their approval in order to leverage their position and put pressure on the City to extend the lease with ABLE. ABLE needs additional time to extend the management agreement but the Bondholders may object to it.

Upon a motion from Arthur, seconded by Alfaro, the Board voted 5 – 0 to negotiate an additional three month extension of the management agreement with the Bondholders and the management company Prospera.

4. <u>Discussion and possible nomination and election of officers of the corporation.</u>

   Discussion has been postponed.

<u>Adjourn</u>

Upon a motion from Arthur, seconded by Alfaro, the Board voted 5 –0 to adjourn. The meeting was adjourned at 4:30 p.m.

David Arthur, Vice President, Assistant Secretary, and
Assistant Treasurer